

Who's on First?

BROUGHT TO YOU BY NEW YORK LIFE STABLE VALUE INVESTMENTS



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Whenever I find myself in situations where there are more questions than answers, I think of the timeless Abbott & Costello “Who’s on First?” skit. It is often not an accident when confusion clouds the conversation as a distraction, while the dust settles.

I have also found that if you wait until the dust settles, opportunities may be missed.

At this moment, there is a dust storm occurring right beneath our noses; one that can potentially limit plan sponsor and advisor choices for years to come. We’ve seen an unprecedented amount of large recordkeepers exit the business in a short period of time, but now, unlike the past rounds of consolidations, the stable value businesses are now being included in the deals. **If you’re asking why, you’re not alone.**

In 2021, the largest provider of stable value assets announced the sale of its recordkeeping and stable value products to a large recordkeeper, with an expected close in 2022, pending regulatory approval. Currently, the details of the acquisition remain unknown, but this mega deal could possibly create a significant change for advisors in the retirement plan marketplace.

The biggest risk to any recordkeeper is always client retention – especially if they are acquiring several competitors in a short period of time to gain market share. Recordkeeping service agreements and contracts are not long-term contractual agreements and clients are generally free to move to another provider, upon request. Make no mistake, this type of transfer is not performed by the flick of a switch. Months of planning go into these changes to ensure the highest chance of a successful transition.



Traditionally, turnover and recordkeeping due diligence review rates are higher when recordkeepers acquire or merge, so any strategic planning to minimize turnover activity may be very attractive. Enter the stable value business, as a new and very important part of the acquisition strategy.

Over the last several years, there have been several mergers and acquisitions involving recordkeepers. In this most recent round of mergers & acquisitions, stable value assets were also purchased. The announcements of these transactions came months ago, but their details have been scant, especially those relating to several stable value businesses. **Again, if you are asking yourself why, you are not alone.**

Stable Value assets are governed by contractual provisions. For more than a decade, stable value contract issuers have not had to enforce the strictest liquidity/termination provisions due to the declining interest rate environment. For the most part, this is because market values have exceeded book values. Now this is beginning to change, and market-to-book value ratios are expected to negatively affect termination provisions as the Federal Reserve expects to raise interest rates in 2022. How can this help the acquiring recordkeeper?

As rates move higher, there is likely an inverse effect on the value of the bonds that make up the portfolio of a stable value fund. This generally causes the market value of stable value contracts to decrease, which may drive market values below book values. This, in turn, could trigger the enforcement of termination provisions, which could result in locking the assets with the provider for years. Once we begin to see rates rise, we should begin to see more clearly how this will play out.

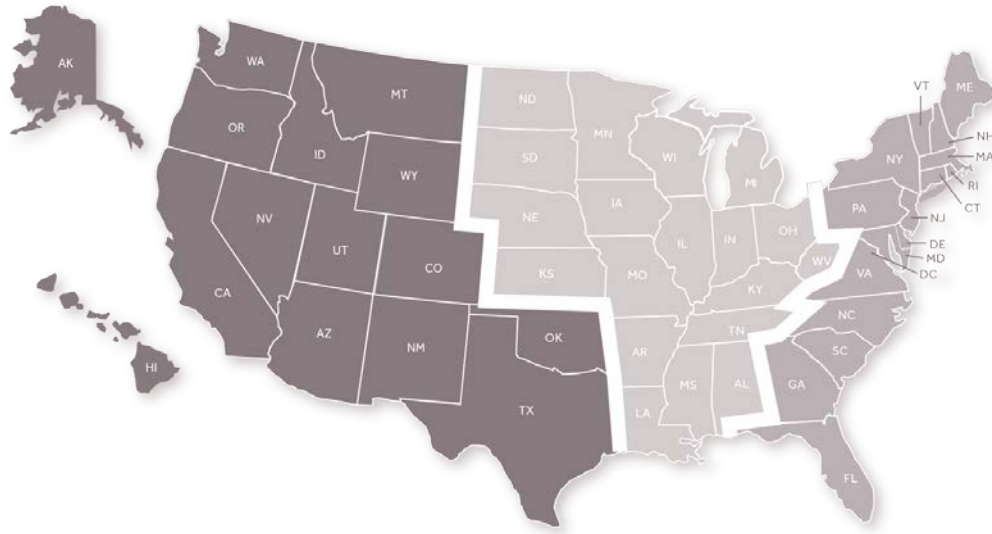
If you find yourself wondering if your clients are affected by this situation, you may want to request a valuation report ASAP. You should also find out the current duration of the underlying portfolio because the higher the duration, the faster the market value will likely fall when rates rise. Consequently, the contract could become less liquid.

Once you have a full understanding of your clients' positions, you can make an informed decision with your investment committee. Other factors to research regarding these changes to stable value funds are:

- Financial Strength Changes
- Portfolio Management Changes
- Contractual Changes
- Expense Changes
- Crediting Rate Changes
- Portability Options

Your Capital Preservation Specialists at New York Life are here to help make sense of all this. Just reach out anytime...

Ready to discuss stable value options in more detail? Contact your New York Life representative and visit us at stablevalueinvestments.com



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